



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

Town of Coupeville

Island County

For the period January 1, 2012 through December 31, 2013

Published December 29, 2014

Report No. 1013308





Washington State Auditor
Troy Kelley

December 29, 2014

Mayor and Town Council
Town of Coupeville
Coupeville, Washington

Report on Financial Statements

Please find attached our report on the Town of Coupeville's financial statements.

We are issuing this report in order to provide information on the Town's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Town of Coupeville
Island County
January 1, 2012 through December 31, 2013**

Mayor and Town Council
Town of Coupeville
Coupeville, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Town of Coupeville, Island County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated December 15, 2014.

We issued an unmodified opinion on the fair presentation of the Town's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Town using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we have reported to the management of the Town in a separate letter dated December 15, 2014.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 15, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town of Coupeville Island County January 1, 2012 through December 31, 2013

Mayor and Town Council
Town of Coupeville
Coupeville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Town of Coupeville, Island County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Town of Coupeville has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town of Coupeville, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Town used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States

of America, the financial position of the Town of Coupeville, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the Town’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 15, 2014

FINANCIAL SECTION

**Town of Coupeville
Island County
January 1, 2012 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013 and 2012
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013 and 2012
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013 and 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

| BARS Code | | Total for All funds* | 001 General | 101 Street | 104 HOTEL/MOTEL |
|--|----------------------------------|----------------------|------------------|----------------|--------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 703,951 | 10,000 | 66,000 | 31,126 |
| 30880 | Beg Fund Bal-Unreserved | 2,195,919 | 584,986 | 183,930 | 0 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 | 0 |
| Operating Revenues | | | | | |
| 310 | Taxes | 1,149,240 | 1,045,187 | 0 | 48,537 |
| 320 | Licenses & Permits | 59,303 | 59,303 | 0 | 0 |
| 330 | Intergovernmental Revenues | 322,479 | 134,092 | 187,017 | 0 |
| 340 | Charges for Goods and Services | 1,005,618 | 28,274 | 500 | 0 |
| 350 | Fines & Penalties | 11,779 | 11,779 | 0 | 0 |
| 360 | Miscellaneous Revenues | 45,961 | 36,367 | 5,359 | 56 |
| Total Operating Revenues: | | 2,594,380 | 1,315,002 | 192,876 | 48,593 |
| Operating Expenditures | | | | | |
| 510 | General Government | 472,254 | 472,254 | 0 | 0 |
| 520 | Public Safety | 465,920 | 465,920 | 0 | 0 |
| 530 | Utilities | 730,180 | 105,325 | 0 | 0 |
| 540 | Transportation | 210,344 | 46,112 | 164,232 | 0 |
| 550 | Natural and Economic Environment | 151,102 | 104,720 | 0 | 46,382 |
| 560 | Social Services | 337 | 337 | 0 | 0 |
| 570 | Culture And Recreation | 89,289 | 89,289 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | 2,119,426 | 1,283,958 | 164,232 | 46,382 |
| Net Operating Increase (Decrease): | | 474,954 | 31,045 | 28,644 | 2,211 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 5,828 | 5,828 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 211,735 | 185,435 | 26,300 | 0 |
| Total Nonoperating Revenues: | | 217,563 | 191,263 | 26,300 | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 9,432 | 9,432 | 0 | 0 |
| 591-593 | Debt Service | 174,691 | 0 | 0 | 0 |
| 594-595 | Capital Expenditures | 103,032 | 21,198 | 72,696 | 0 |
| 597 | Transfers-Out | 211,735 | 26,300 | 0 | 0 |
| Total Nonoperating Expenditures: | | 498,890 | 56,930 | 72,696 | |
| Increase (Decrease) in Cash and Investments | | 193,627 | 165,378 | -17,752 | 2,211 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 656,678 | 0 | 0 | 33,337 |
| 50880 | End Fund Balance-Unreserved | 2,436,819 | 760,365 | 232,178 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 105 CIP - REET | 106 DRUG ENF | 107 HARBOR | 109 PARK IMPACT |
|---|----------------------------------|----------------|--------------|------------|-----------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 428,839 | 0 | 0 | 58,237 |
| 30880 | Beg Fund Bal-Unreserved | 0 | 1,693 | 20,553 | 0 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 | 0 |
| Operating Revenues | | | | | |
| 310 | Taxes | 55,516 | 0 | 0 | 0 |
| 320 | Licenses & Permits | 0 | 0 | 0 | 0 |
| 330 | Intergovernmental Revenues | 0 | 0 | 1,369 | 0 |
| 340 | Charges for Goods and Services | 0 | 0 | 0 | 870 |
| 350 | Fines & Penalties | 0 | 0 | 0 | 0 |
| 360 | Miscellaneous Revenues | 665 | 3 | 33 | 89 |
| Total Operating Revenues: | | 56,180 | 3 | 1,402 | 959 |
| Operating Expenditures | | | | | |
| 510 | General Government | 0 | 0 | 0 | 0 |
| 520 | Public Safety | 0 | 0 | 0 | 0 |
| 530 | Utilities | 0 | 0 | 0 | 0 |
| 540 | Transportation | 0 | 0 | 0 | 0 |
| 550 | Natural and Economic Environment | 0 | 0 | 0 | 0 |
| 560 | Social Services | 0 | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | | | | |
| Net Operating Increase (Decrease): | | 56,180 | 3 | 1,402 | 959 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 | 0 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 0 | 0 | 0 | 0 |
| Total Nonoperating Revenues: | | | | | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 0 | 0 | 0 | 0 |
| 591-593 | Debt Service | 25,239 | 0 | 0 | 0 |
| 594-595 | Capital Expenditures | 5,383 | 0 | 0 | 0 |
| 597 | Transfers-Out | 0 | 0 | 0 | 0 |
| Total Nonoperating Expenditures: | | 30,623 | | | |
| Increase (Decrease) in Cash and Investments | | 25,557 | 3 | 1,402 | 959 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 454,397 | 0 | 0 | 59,196 |
| 50880 | End Fund Balance-Unreserved | 0 | 1,696 | 21,955 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 401 W/S UTILITY |
|---|----------------------------------|-----------------|
| Beginning Cash and Investments | | |
| 30810 | Beg Fund Bal-Reserved | 109,749 |
| 30880 | Beg Fund Bal-Unreserved | 1,404,758 |
| 38800/58800 | Prior Period Adjustments, net | 0 |
| Operating Revenues | | |
| 310 | Taxes | 0 |
| 320 | Licenses & Permits | 0 |
| 330 | Intergovernmental Revenues | 0 |
| 340 | Charges for Goods and Services | 975,975 |
| 350 | Fines & Penalties | 0 |
| 360 | Miscellaneous Revenues | 3,389 |
| Total Operating Revenues: | | 979,364 |
| Operating Expenditures | | |
| 510 | General Government | 0 |
| 520 | Public Safety | 0 |
| 530 | Utilities | 624,855 |
| 540 | Transportation | 0 |
| 550 | Natural and Economic Environment | 0 |
| 560 | Social Services | 0 |
| 570 | Culture And Recreation | 0 |
| 598 | Intergovernmental Payments | 0 |
| Total Operating Expenditures: | | 624,855 |
| Net Operating Increase (Decrease): | | 354,510 |
| Nonoperating Revenues | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 |
| 391-393 | Debt Proceeds | 0 |
| 397 | Transfers-In | 0 |
| Total Nonoperating Revenues: | | |
| Nonoperating Expenditures | | |
| 580, 596, 599 | Other Financing Uses | 0 |
| 591-593 | Debt Service | 149,451 |
| 594-595 | Capital Expenditures | 3,755 |
| 597 | Transfers-Out | 185,435 |
| Total Nonoperating Expenditures: | | 338,642 |
| Increase (Decrease) in Cash and Investments | | 15,869 |
| Ending Cash and Investments | | |
| 50810 | End Fund Bal-Reserved | 109,749 |
| 50880 | End Fund Balance-Unreserved | 1,420,626 |

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

| BARS Code | | Total for All funds* | 001 General | 101 Street | 104 HOTEL/MOTEL |
|--|--------------------------------|----------------------|------------------|----------------|--------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 721,029 | 10,000 | 66,000 | 24,237 |
| 30880 | Beg Fund Bal-Unreserved | 2,074,165 | 578,444 | 111,834 | 0 |
| 38800/58800 | Prior Period Adjustments, net | -31,108 | 0 | 0 | 0 |
| Operating Revenues | | | | | |
| 310 | Taxes | 1,115,119 | 1,008,175 | 0 | 50,921 |
| 320 | Licenses & Permits | 56,131 | 56,131 | 0 | 0 |
| 330 | Intergovernmental Revenues | 271,812 | 72,063 | 152,360 | 0 |
| 340 | Charges for Goods and Services | 996,276 | 26,758 | 500 | 0 |
| 350 | Fines & Penalties | 8,213 | 8,213 | 0 | 0 |
| 360 | Miscellaneous Revenues | 145,888 | 34,266 | 107,019 | 57 |
| Total Operating Revenues: | | 2,593,437 | 1,205,606 | 259,879 | 50,978 |
| Operating Expenditures | | | | | |
| 510 | General Government | 456,267 | 456,267 | 0 | 0 |
| 520 | Public Safety | 556,498 | 556,498 | 0 | 0 |
| 530 | Utilities And Environment | 690,917 | 68,167 | 0 | 0 |
| 540 | Transportation | 166,458 | 0 | 166,458 | 0 |
| 550 | Economic Environment | 150,071 | 105,982 | 0 | 44,089 |
| 560 | Mental & Physical Health | 528 | 528 | 0 | 0 |
| 570 | Culture And Recreation | 100,872 | 100,872 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | 2,121,611 | 1,288,314 | 166,458 | 44,089 |
| Net Operating Increase (Decrease): | | 471,826 | -82,708 | 93,421 | 6,889 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 4,530 | 4,530 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 176,396 | 176,396 | 0 | 0 |
| Total Nonoperating Revenues: | | 180,927 | 180,927 | | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 6,676 | 6,676 | 0 | 0 |
| 591-593 | Debt Service | 176,967 | 0 | 0 | 0 |
| 594-595 | Capital Expenditures | 156,929 | 85,000 | 21,324 | 0 |
| 597 | Transfers-Out | 176,396 | 0 | 0 | 0 |
| Total Nonoperating Expenditures: | | 516,968 | 91,676 | 21,324 | |
| Increase (Decrease) in Cash and Investments | | 135,784 | 6,542 | 72,097 | 6,889 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 703,951 | 10,000 | 66,000 | 31,126 |
| 50880 | End Fund Balance-Unreserved | 2,195,919 | 584,986 | 183,930 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 105 CIVIC-REET | 106 DRUG ENF | 107 HARBOR | 109 PARK IMPACT |
|---|-----------------------------------|----------------|--------------|------------|--------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 421,808 | 0 | 0 | 89,235 |
| 30880 | Beg Fund Bal-Unreserved | 0 | 1,690 | 19,145 | 0 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 | -31,108 |
| Operating Revenues | | | | | |
| 310 | Taxes | 56,023 | 0 | 0 | 0 |
| 320 | Licenses & Permits | 0 | 0 | 0 | 0 |
| 330 | Intergovernmental Revenues | 0 | 0 | 1,369 | 0 |
| 340 | Charges for Goods and Services | 0 | 0 | 0 | 0 |
| 350 | Fines & Penalties | 0 | 0 | 0 | 0 |
| 360 | Miscellaneous Revenues | 790 | 3 | 39 | 111 |
| Total Operating Revenues: | | 56,813 | 3 | 1,408 | 111 |
| Operating Expenditures | | | | | |
| 510 | General Government | 0 | 0 | 0 | 0 |
| 520 | Public Safety | 0 | 0 | 0 | 0 |
| 530 | Utilities And Environment | 0 | 0 | 0 | 0 |
| 540 | Transportation | 0 | 0 | 0 | 0 |
| 550 | Economic Environment | 0 | 0 | 0 | 0 |
| 560 | Mental & Physical Health | 0 | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | | | | |
| Net Operating Increase (Decrease): | | 56,813 | 3 | 1,408 | 111 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 | 0 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 0 | 0 | 0 | 0 |
| Total Nonoperating Revenues: | | | | | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 0 | 0 | 0 | 0 |
| 591-593 | Debt Service | 27,063 | 0 | 0 | 0 |
| 594-595 | Capital Expenditures | 22,719 | 0 | 0 | 0 |
| 597 | Transfers-Out | 0 | 0 | 0 | 0 |
| Total Nonoperating Expenditures: | | 49,782 | | | |
| Increase (Decrease) in Cash and Investments | | 7,031 | 3 | 1,408 | 111 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 428,839 | 0 | 0 | 58,237 |
| 50880 | End Fund Balance-Unreserved | 0 | 1,693 | 20,553 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 401 UTILITY |
|---|--------------------------------|-------------|
| Beginning Cash and Investments | | |
| 30810 | Beg Fund Bal-Reserved | 109,749 |
| 30880 | Beg Fund Bal-Unreserved | 1,363,054 |
| 38800/58800 | Prior Period Adjustments, net | 0 |
| Operating Revenues | | |
| 310 | Taxes | 0 |
| 320 | Licenses & Permits | 0 |
| 330 | Intergovernmental Revenues | 46,020 |
| 340 | Charges for Goods and Services | 969,017 |
| 350 | Fines & Penalties | 0 |
| 360 | Miscellaneous Revenues | 3,604 |
| Total Operating Revenues: | | 1,018,640 |
| Operating Expenditures | | |
| 510 | General Government | 0 |
| 520 | Public Safety | 0 |
| 530 | Utilities And Environment | 622,750 |
| 540 | Transportation | 0 |
| 550 | Economic Environment | 0 |
| 560 | Mental & Physical Health | 0 |
| 570 | Culture And Recreation | 0 |
| 598 | Intergovernmental Payments | 0 |
| Total Operating Expenditures: | | 622,750 |
| Net Operating Increase (Decrease): | | 395,891 |
| Nonoperating Revenues | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 |
| 391-393 | Debt Proceeds | 0 |
| 397 | Transfers-In | 0 |
| Total Nonoperating Revenues: | | 0 |
| Nonoperating Expenditures | | |
| 580, 596, 599 | Other Financing Uses | 0 |
| 591-593 | Debt Service | 149,904 |
| 594-595 | Capital Expenditures | 27,886 |
| 597 | Transfers-Out | 176,396 |
| Total Nonoperating Expenditures: | | 354,186 |
| Increase (Decrease) in Cash and Investments | | 41,705 |
| Ending Cash and Investments | | |
| 50810 | End Fund Bal-Reserved | 109,749 |
| 50880 | End Fund Balance-Unreserved | 1,404,758 |

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

| BARS Code | | Total for All funds | 621 C.C. FUND | 631 CAFETERIA |
|---|---------------------------------------|---------------------|---------------|---------------|
| 308 | Beginning Cash and Investments | 12,408 | 6,686 | 5,722 |
| 388 and 588 | Prior Period Adjustments, net | 0 | 0 | 0 |
| 310-360 | Revenues | 18 | 10 | 8 |
| 380-390 | Other Increases and Financing Sources | 3,967 | 0 | 3,967 |
| 510-570 | Expenditures | 0 | 0 | 0 |
| 580-590 | Other Decreases and Financing Uses | 4,761 | 0 | 4,761 |
| Increase (Decrease) in Cash and Investments | | -776 | 10 | -786 |
| 508 | Ending Cash and Investments | 11,632 | 6,696 | 4,936 |

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

| BARS Code | | Total for All funds | 621 C.C. FUND | 631 CAFETERIA |
|---|---------------------------------------|---------------------|---------------|---------------|
| 308 | Beginning Cash and Investments | 9,695 | 6,674 | 3,021 |
| 388 and 588 | Prior Period Adjustments, net | 0 | 0 | 0 |
| 310-360 | Revenues | 24 | 13 | 11 |
| 370-390 | Other Increases and Financing Sources | 13,856 | 0 | 13,856 |
| 510-570 | Expenditures | 0 | 0 | 0 |
| 580-590 | Other Decreases and Financing Uses | 11,167 | 0 | 11,167 |
| Increase (Decrease) in Cash and Investments | | 2,713 | 13 | 2,700 |
| 508 | Ending Cash and Investments | 12,408 | 6,686 | 5,722 |

The accompanying notes are an integral part of this Statement.

TOWN OF COUPEVILLE
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Coupeville reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The Town of Coupeville was incorporated in April 1910 and operates under the laws of the state of Washington applicable to a Town with a Mayor-Council form of government. The Town of Coupeville is a general purpose government and provides public safety, planning, street improvements, parks, and general administrative services. In addition, the Town owns and operates a combined water/sewer utility. The Town uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The Town of Coupeville's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the Town of Coupeville:

GOVERNMENTAL FUND TYPES:

General Fund - 001

This fund is the primary operating fund of the Town of Coupeville. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds – Funds 100 Series

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the Town of Coupeville.

PROPRIETARY FUND TYPES:

Enterprise Funds – Fund 400 Series

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the Town of Coupeville in a trustee capacity or as an agent on behalf of others.

Private-Purpose Trust Funds - Fund 621

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

The Town has a trust established for the Community Commemorative Fund utilizing fund #621

Agency Funds – Fund 631

These funds are used to account assets that Town of Coupeville holds for others in an agency capacity.

The Town has an agency fund for the Cafeteria Fund established for employee medical.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the Town of Coupeville also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The Town of Coupeville adopts annual appropriated budgets for general, special revenue, and enterprise funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

| Fund/Department | Final Appropriated Amounts | Actual Expenditures | Variance |
|--------------------------------------|----------------------------------|------------------------|----------|
| 001 - General Fund | 2,167,399 | 1,347,002 | 820,397 |
| 101 - Street Fund | 1,202,697 | 237,498 | 965,199 |
| 104 – Hotel/Motel Tax Fund | 55,640 | 46,382 | 9,258 |
| 105 – Capital Improvement Fund | 187,020 | 30,623 | 156,397 |
| 106 - Drug Enforcement Fund | 1,695 | 0 | 1,695 |
| 107 - Harbor Improvement Fund | 25,325 | 0 | 25,325 |
| 109 - Park Impact Fee Fund | 59,920 | 0 | 59,920 |
| 202 - 1979 Water & Sewer Bond Fund | 5,450 | 5,400 | 50 |
| 203 – 1975 Water & Sewer Bond Fund | 10,850 | 10,850 | 0 |
| 209 – 1994 PWTF Loan Fund | 40,382 | 40,378 | 4 |
| 212 – DOE – WWTP Loan Fund | 92,824 | 92,823 | 1 |
| 303 – Water Capital Improvement Fund | 595,000 | 3,495 | 591,505 |
| 304 – Sewer Capital Improvement Fund | 505,850 | 260 | 505,590 |
| 401 - Utility Fund | 1,148,839 | 957,335 | 191,504 |
| 621 - Community Commemorative Fund | 6,570 | 0 | 6,570 |
| 631 - Cafeteria Fund | 13,000 | 4,761 | 8,239 |

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Town of Coupeville’s legislative body.

D. Cash

It is the Town of Coupeville’s policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The Town of Coupeville deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington Public Deposit Protection Commission (WPDPC).

F. Investments

See NOTE 2 – Investments

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. The capital assets of the Town of Coupeville are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement.

Sick leave may be accumulated up to 960 hours. Upon separation (not retirement) employees do not receive payment for unused sick leave. Upon retirement employees may receive payment of 25% of unused sick leave.

I. Long-Term Debt

See Note 4 – Debt Service Requirements

J. Other Financing Sources or Uses

The Town of Coupeville's *Other Financing Sources or Uses* consist of debt service.

K. Risk Management

The Town of Coupeville is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits.

Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

L. Reserved Fund Balance

The Town has special revenue funds with restrictions and/or commitments that define the balances as being reserved. They are:

- Hotel/Motel Tax Fund – restricted by RCW 36.100 (\$33,337)
- CIP/REET Fund – restricted by RCW 82.46.030 ((\$454,397)
- Park Impact Fund – restricted by RCW 82.02.050-090 (\$59,196)
- Water/Sewer Debt reserves – per loan covenants (\$109,749)

NOTE 2 – INVESTMENTS

The Town of Coupeville's investments are insured or held by the Town of Coupeville or its agent in the Town of Coupeville's name. Investments are presented at cost. Investments by type at December 31, 2013 are as follows:

| Type of Investment | Balance |
|---|-----------------|
| Local Government Investment Pool (LGIP) | \$ 3,025,885.07 |
| Total Investments | \$ 3,025,885.07 |

NOTE 3 – PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the Town of Coupeville. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town of Coupeville regular levy for the year 2013 was \$1.32237 per \$1,000 on an assessed valuation of \$262,499,029 for a total regular levy of \$347,120.73.

NOTE 4– DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Debt (09) provides more details of the outstanding debt of the Town of Coupeville and summarizes the Town's debt transactions for the year ended December 2013.

The debt service requirements for general obligation, revenue bonds and other debt including both principle and interest, are as follows:

| | General | | Other | Total |
|-----------|--------------|--------------|----------------|-----------------|
| | Obligation | Revenue | Debt | Debt |
| 2014 | 25,239.34 | \$ 15,050.00 | 92,823.10 | \$ 133,112.44 |
| 2015 | 25,239.34 | \$ 5,000.00 | 92,823.10 | \$ 123,062.44 |
| 2016 | 25,239.34 | \$ 4,800.00 | 92,823.10 | \$ 122,862.44 |
| 2017 | 25,239.34 | \$ 5,000.00 | 92,823.10 | \$ 123,062.44 |
| 2018 | 25,239.34 | \$ 7,812.50 | 92,823.10 | \$ 125,874.94 |
| 2019-2023 | 83,561.67 | \$ - | 464,115.50 | \$ 547,677.17 |
| 2024-2028 | - | \$ - | 139,234.53 | \$ 139,234.53 |
| TOTALS | \$209,758.37 | \$ 37,662.50 | \$1,067,465.53 | \$ 1,314,886.40 |

NOTE 5 - PENSION PLANS

Substantially all Town of Coupeville full-time and qualifying part-time employees participate in the PERS or LEOFF administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Town's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

NOTE 6– OTHER DISCLOSURES

- Schedule 09 – clarification for Compensated Absence liabilities reported. The total compensated absence being reported assumes that all employees will retire with the Town. The Town's personal manual provides for a 25% buyout of sick leave upon retirement but in the event that the employee should separate from employment for reasons other than retirement, there is no sick leave accrual compensation provided. This difference between calculations is not considered material to the financials.
- The Town has several managerial funds of the Water/Sewer Utility. These funds are rolled together for reporting purposes as required by BARS. The following funds are included within the proprietary activity of the combined Water/Sewer Utility.
 - 1979 Water & Sewer Revenue Bond
 - 1975 Water & Sewer Revenue Bond
 - 1994 PWTF Loan Fund
 - 2002 DOE – WWTP Loan Fund
 - Cumulative Reserve – Water Capital Fund
 - Cumulative Reserve – Sewer Capital Fund
- The Town has an accounting software system that cannot be upgraded or enhanced to make recent changes as required by BARS. Several of the funds have incorrect numbers as defined by BARS within its general ledger that do not present a management problem but only a reporting issue. For reporting purposes these funds are being properly classified and reported in the financial statements. These funds are:

| Fund Name | Old # | New # |
|------------------------------|-------|-------|
| 1979 Water & Sewer Rev. Bond | 202 | 402 |
| 1975 Water & Sewer Rev. Bond | 203 | 403 |
| 1994 PWTF Loan Fund | 209 | 409 |
| 2002 DOE Loan (WWTP) | 212 | 412 |
| Cumulative Reserve - Water | 303 | 413 |
| Cumulative Reserve - Sewer | 304 | 414 |

- Subsequent Events -the Town's long time Clerk/Treasurer retired unexpectedly in March of 2014 for personal reasons. The Town has filled the vacated position with an individual that they feel will best meet the financial objectives of the Town. The new Clerk/Treasurer has sufficient accounting knowledge in local government to make the transition fairly seamless.

TOWN OF COUPEVILLE
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Coupeville reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The Town of Coupeville was incorporated in April 1910 and operates under the laws of the state of Washington applicable to a Town with a Mayor-Council form of government. The Town of Coupeville is a general purpose government and provides public safety, planning, street improvements, parks, and general administrative services. In addition, the Town owns and operates a water/sewer system. The Town of Coupeville uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the Town of Coupeville are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The Town of Coupeville's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the Town of Coupeville:

GOVERNMENTAL FUND TYPES:

General Fund - 001

This fund is the primary operating fund of the Town of Coupeville. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds – Funds 100 Series

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the Town of Coupeville. The Special Revenue Funds for the Town of Coupeville are as follows (restricted or committed revenue source): Fund 101 Street (Capron and MVFT Tax); Fund 104 Civic Improvement Fund (Hotel/Motel Tax); 105 Civic Improvement Fund (Real Estate Excise Tax); Fund 106 Drug Enforcement/Dare Fund (Donations, Restitution); Fund 107 Harbor Improvements Fund (Harbor Lease Tax); Fund 109 Park Impact Fee Fund (Park Impact Fees).

PROPRIETARY FUND TYPES:

Enterprise Funds – Fund 401 Utility Fund

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. Also included in the 401 Utility Fund are Debt Service Funds and Capital Projects Funds associated with the Utility Fund for Water, Sewer, and Storm Drainage, as follows:

- All Debt Service Funds (formerly reported in 200 Funds Series) that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt;
- All Capital Projects Funds (formerly reported in 300 Series) which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the Town of Coupeville in a trustee capacity or as an agent on behalf of others.

Private-Purpose Trust Funds - Fund 621

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments. The Private Purpose Trust Fund for the Town of Coupeville is Fund 621 – Community Commemorative Fund.

Agency Funds – Fund 631

These funds are used to account assets that Town of Coupeville holds for others in an agency capacity. The Agency Fund for the Town of Coupeville is Fund 631 – Cafeteria Fund.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the Town of Coupeville also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The Town of Coupeville adopts annual appropriated budgets for general, special revenue, and enterprise funds. These budgets are appropriated at the fund level (except the general fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

| Fund/Department | Final Appropriated Amounts | Actual Expenditures | Variance |
|------------------------------------|----------------------------------|------------------------|-----------|
| 001 - General Fund | 2,171,261 | 1,379,989 | 791,272 |
| 101 - Street Fund | 252,850 | 187,783 | 65,067 |
| 104 – Hotel/Motel Tax Fund | 55,640 | 44,089 | 11,551 |
| 105 - Civic Improvement Fund | 152,063 | 49,782 | 102,281 |
| 106 - Drug Enforcement Fund | 1,692 | 0 | 1,692 |
| 107 - Harbor Improvement Fund | 23,925 | 0 | 23,925 |
| 109 - Park Impact Fee Fund | 77,489 | 31,108 | 46,381 |
| 401 - Utility Fund | 2,322,729 | 1,127,025 | 1,195,704 |
| 621 - Community Commemorative Fund | 7,000 | 0 | 7,000 |
| 631 - Cafeteria Fund | 13,000 | 11,167 | 1,833 |

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Town of Coupeville's legislative body.

D. Cash

It is the Town of Coupeville's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The Town of Coupeville deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington Public Deposit Protection Commission (WPDPC).

F. Investments

See NOTE 2 – INVESTMENTS

G. Derivatives and Similar Transactions

The Town of Coupeville had not used, held, or sold any derivatives or similar instruments for the fiscal year January 1, 2012 through December 31, 2012.

H. Capital Assets

Capital assets are assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. The capital assets of the Town of Coupeville are recorded as expenditures when purchased.

I. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement.

Sick leave may be accumulated up to 960 hours.. Upon separation (not retirement) employees do not receive payment for unused sick leave. Upon retirement employees may receive payment of 25% of unused sick leave.

J. Long-Term Debt

See NOTE 5 – DEBT SERVICE REQUIREMENTS

K. Other Financing Sources or Uses

The Town of Coupeville's *Other Financing Sources or Uses* consist of transfers in, transfers out, grants and loan funds.

L. Risk Management

The Town of Coupeville is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 153 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

M. Reserved Fund Balance

The Town has special revenue funds with restrictions and/or commitments that define the balances as being reserved. They are:

- Hotel/Motel Tax Fund – restricted by RCW 36.100 (\$31,126)
- CIP/REET Fund – restricted by RCW 82.46.030 ((\$428,839)
- Park Impact Fund – restricted by RCW 82.02.050-090 (\$58,237)
- Water/Sewer Debt reserves – per loan covenants (\$109,749)

NOTE 2 – INVESTMENTS

The Town of Coupeville's investments are insured or held by the Town of Coupeville or its agent in the Town of Coupeville's name. Investments are presented at cost. Investments by type at December 31, 2012 are as follows:

| Type of Investment | Balance |
|---|-----------------|
| Local Government Investment Pool (LGIP) | \$ 2,717,724.51 |
| Total Investments | \$ 2,717,724.51 |

NOTE 3 – PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the Town of Coupeville. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town of Coupeville regular levy for the year 2012 was \$1.3223695772 per \$1,000 on an assessed valuation of \$262,499,029 for a total regular levy of \$347,120.73.

NOTE 4 - INTERFUND LOANS AND ADVANCES

There were no interfund loans or advances in 2012.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Debt (09) provides more details of the outstanding debt of the Town of Coupeville and summarizes the Town's debt transactions for the year ended December 2012. The debt service requirements for general obligation and revenue debt, for the fiscal year being reported and future payment requirements, including both principle and interest, are as follows:

| Year | General Obligation | Revenue Debt | Total Debt |
|---------------|-----------------------|-----------------|---------------|
| 2012 | 27,019.44 | 149,905.69 | 176,925.13 |
| 2013 | 27,019.44 | 149,451.37 | 176,470.81 |
| 2014 | 27,019.44 | 107,873.10 | 134,892.54 |
| 2015 | 27,019.44 | 97,823.10 | 124,842.54 |
| 2016 | 27,019.44 | 97,623.10 | 124,642.54 |
| 2017 – 2021 | 120,417.29 | 476,928.00 | 597,345.29 |
| 2022 – 2026 | 24,431.05 | 324,880.73 | 349,311.78 |
| 2027 – 2031 | 0.00 | 0.00 | 0.00 |
| TOTALS | 279,945.54 | 1,404,485.09 | 1,684,430.63 |

NOTE 6 - PENSION PLANS

Substantially all Town of Coupeville full-time and qualifying part-time employees participate in the PERS or LEOFF administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Town's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

NOTE 7 – OTHER DISCLOSURES

- A. During the 2010-2011 audit by the State Auditor's Office (completed in April 2013) it was recommended that the Town (for financial reporting purposes) combine all Utilities (Water, Sewer and Storm Drainage) Funds related to operations, debt service and capital expenditures to one fund – Fund 401 Utilities; which has been done in this 2012 Annual Financial Report.
- B. In the 2011 and 2012 Budget Revisions, the Town Council authorized additional compensation of \$1,200 per full-time employee, in-lieu of the employees not receiving cost-of-living increases since 2008. In preparation of the 2011 Budget Revision, and upon review of the actual beginning fund balance in the General Fund, there were additional funds available. Mayor Conard consulted with the Town Attorney and the State Auditor's Office (SAO), the possibility of a one-time payment to employees, in-lieu of no cost-of-living pay increases since 2008 (three years). There was a miscommunication between the Mayor and the SAO, and Mayor Conard understood the direction from the SAO, was that it would be allowed, but the additional compensation *could* be considered as a bonus. During the 2010-2011 Audit by the State Auditor's Office, it was determined that the additional compensation was in violation of the Washington State Constitution, and a finding was issued to the Town.
- C. The Park Impact Fee refunds paid in 2012 were reported as expenses (109,588.80.00 Park Impact Fee Refunds), rather than refunding revenues because the revenues that were being refunded were from more than six years since they had been received.
- D. Explanation of Schedule 09 – Schedule of Liabilities Compensated Absences for Sick Leave. Upon separation (not retirement) employees do not receive payment for unused sick leave. Upon retirement employees may receive payment of 25% of unused sick leave. The figures shown on Schedule 09 are the maximum pay-out amounts at 25% of the totals; the actual totals are shown in *italics* in the lower part of the form.

Town of Coupeville

Schedule of Liabilities
For the year ended December 31, 2013

| Debt Type | ID. No. | Description | Maturity/Payment Due Date | Beginning Balance January 1, 2013 | Additions | Reductions | Ending Balance December 31, 2013 |
|-----------------------------------|---------|----------------------------------|---------------------------|-----------------------------------|--------------|----------------|----------------------------------|
| General Obligations | | | | | | | |
| | 251.11 | GO DEBT-OSPC PROPERTY | 3/1/2020 | 90,172 | 0 | 9,037 | 81,135 |
| | 251.11 | GO DEBT - CIRAOLLO PROPERTY | 9/15/2023 | 96,422 | 0 | 4,815 | 91,607 |
| | 259.11 | GO COMPENSATED ABSENCE LIABILITY | | 61,116 | 0 | 14,073 | 47,043 |
| Total General Obligations: | | | | 247,710 | 0 | 27,925 | 219,785 |
| Revenue Obligations | | | | | | | |
| | 252.11 | 1979 W/S REVENUE BOND | 12/1/2018 | 29,000 | 0 | 4,000 | 25,000 |
| | 252.11 | 1975 W/S REVENUE BOND | 12/1/2014 | 19,500 | 0 | 10,000 | 9,500 |
| | 263.82 | 1994 PWTF LOAN | 6/30/2013 | 39,586 | 0 | 39,586 | 0 |
| | 263.82 | 2003 DOE -WWTP LOAN | 4/30/2025 | 1,160,289 | 0 | 92,823 | 1,067,466 |
| | 259.12 | COMPENSATED ABSENCE | | 12,915 | 5,672 | 0 | 18,587 |
| Total Revenue Obligations: | | | | 1,261,290 | 5,672 | 146,409 | 1,120,553 |
| Total Liabilities: | | | | 1,509,000 | 5,672 | 174,334 | 1,340,338 |

Town of Coupeville

Schedule of Liabilities
For the year ended December 31, 2012

| Debt Type | ID. No. | Description | Maturity/Payment Due Date | Beginning Balance January 1, 2012 | Additions | Reductions | Ending Balance December 31, 2012 |
|-----------------------------------|---------|-------------------------------------|---------------------------|-----------------------------------|---------------|----------------|----------------------------------|
| General Obligations | | | | | | | |
| | 251.11 | GO Debt - OSPC Property | 3/1/2020 | 98,684 | 0 | 8,512 | 90,172 |
| | 251.11 | GO Debt - Ciarolo Property | 9/15/2023 | 102,248 | 0 | 5,826 | 96,422 |
| | 259.11 | GO Compensated Absence Liability | | 102,815 | 55,947 | 97,645 | 61,117 |
| Total General Obligations: | | | | 303,747 | 55,947 | 111,983 | 247,711 |
| Revenue Obligations | | | | | | | |
| | 252.11 | 1979 Wtr/Swr Revenue Bond | 12/1/2018 | 33,000 | 0 | 4,000 | 29,000 |
| | 252.11 | 1975 Wtr/Swr Revenue Bond | 12/1/2014 | 28,500 | 0 | 9,000 | 19,500 |
| | 263.82 | 2003 DOE WWTP Loan | 12/1/2025 | 1,253,112 | 0 | 92,823 | 1,160,289 |
| | 259.12 | Compensated Absences - Utility Fund | | 19,692 | 14,482 | 21,259 | 12,915 |
| | 263.82 | 1994 PWTF Loan | 6/30/2013 | 79,173 | 0 | 39,587 | 39,586 |
| Total Revenue Obligations: | | | | 1,413,477 | 14,482 | 166,669 | 1,261,290 |
| Total Liabilities: | | | | 1,717,224 | 70,429 | 278,652 | 1,509,001 |

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

| Contact information for the State Auditor's Office | |
|--|--|
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